NEWS RELEASE

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FOR IMMEDIATE RELEASE
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Extendicare Announces 2014 Year End Results

On Target for Completion of U.S. Sale and Home Health Acquisition

MARKHAM, ONTARIO – Extendicare Inc. ("Extendicare" or the "Company") (TSX: EXE) today reported results for the fourth quarter and year ended December 31, 2014. Results are presented in Canadian dollars unless otherwise noted.

As announced on November 7, 2014, Extendicare has entered into a definitive share purchase agreement to dispose of substantially all of its U.S. business (the "U.S. Sale Transaction"). As a result, Extendicare's financial information has been restated for the classification of its U.S. senior care operations as discontinued operations. Extendicare will retain 10 of the U.S. skilled nursing centres that will continue to be held for sale, and which have also been classified as discontinued.

In addition, Extendicare will retain as part of its continuing operations, its indirect wholly owned U.S. subsidiary, Virtual Care Provider, Inc. (VCPI), which provides a range of information technology solutions to long-term care providers, and its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the "Captive").

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments, composed of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care operations to discontinued operations, the Company has determined there to be two reportable operating segments within its Canadian operations, being its long-term care and home health care operations, leaving its managed contract and group purchasing operations to be reported as "other Canadian operations", and the Canadian corporate functions and any eliminations as "corporate Canada". The Company continues to segment its U.S. operations as one segment, with the continuing operations composed of VCPI and the Captive, and the discontinued operations representing the U.S. senior care operations held for sale.

FINANCIAL HIGHLIGHTS FOR THE YEAR

- Revenue of $816.1 million in 2014 increased by $32.3 million, or 4.1% over 2013.
- Long-term care revenue increased by 2.6%, including average revenue rates for senior care centres up 1.9% to $198.03 in 2014.
- Ontario home health care revenue increased by 6.5%, including funding to support mandated wage increases and a 6.5% increase in service hours provided to 5.1 million in 2014.
- Net operating income of $108.0 million in 2014 increased by $1.9 million, or 1.8% over 2013, representing 13.2% and 13.5% of revenue, respectively.

- Adjusted EBITDA of $74.6 million in 2014 increased by $5.1 million over 2013, and included prior period reinsurance premium refund of $2.8 million, partially offset by lower prior period revenue of $1.2 million.
- AFFO from continuing operations was $34.4 million ($0.392 per basic share) in 2014 compared to $32.9 million ($0.379 per basic share) in 2013.
- AFFO, including discontinued operations, was $73.7 million ($0.840 per basic share) in 2014 compared to $71.1 million ($0.820 per basic share) in 2013.
- Dividends declared in 2014 totalled $42.1 million, representing approximately 57% of AFFO for the same period.

"Our results for 2014 have been restated to reflect the business of our continuing operations post-sale of our U.S. long-term care division," stated Tim Lukenda, President and Chief Executive Officer of Extendicare. "The U.S. Sale Transaction continues to work its way through the process involving regulatory and financing approvals. We are optimistic that we remain on track for a closing in the second quarter of 2015.

"We also look forward to the closing of our previously announced purchase of Revera's home health care business in the 2015 second quarter. The completion of the U.S. sale and the acquisition of Revera home health are important steps in the transformation of Extendicare into a Canadian pure play senior care and services company. We are excited about the opportunities that lie ahead to further our vision of being the premier provider of senior care and services across the continuum of care," he added.

U.S. SALE TRANSACTION

As previously announced, the Company has entered into a definitive share purchase agreement to sell substantially all of its U.S. business to a group of investors led by Formation Capital, LLC (the "Purchaser") for US$870 million ($1.0 billion using the closing U.S./Canadian dollar exchange rate of 1.1601 as at December 31, 2014), subject to specified adjustments, including a reduction on account of the outstanding amount of mortgage loans and other indebtedness relating to the U.S. business at closing, which as at December 31, 2014, was approximately US$662 million. The Company estimates the net after-tax cash proceeds from the U.S. Sale Transaction to be in the range of US$230 million to US$250 million, and includes a deduction of pre-tax US$9 million for advisor fees and other transaction costs. The estimate of after-tax proceeds is subject to change at the time of closing, which is anticipated in the 2015 second quarter. The Company intends to use the proceeds from the sale to expand and grow its Canadian operations.

In addition, the Company expects to receive additional value ascribed to an ongoing rental stream and proceeds from the sale of 10 U.S. skilled nursing centres that are not part of the U.S. Sale Transaction. Extendicare and the purchaser have agreed in principle to enter into an agreement, whereby, Extendicare would be entitled to certain amounts relating to centres to be leased prior to the close of the U.S. Sale Transaction, the estimated net benefit of which is anticipated to average US$5 million per annum (pre-tax) over 15 years. With regards to the 10 centres being retained for sale by Extendicare, we anticipate net proceeds to approximate their carrying value at December 31, 2014, of US$18.9 million (net of long-term debt of US$9.7 million).

REVERA HOME HEALTH ACQUISITION

As previously announced, the Company has entered into a definitive agreement to acquire the Revera Home Health business from Revera Inc., for $83 million in cash, before working capital adjustments. The completion of the acquisition is subject to customary closing conditions and regulatory approvals, including assignment of government contracts, and is expected to close in the 2015 second quarter. We expected to temporarily finance the acquisition with a fully committed bridge loan of up to $80 million and cash on hand. Any bridge loan, if utilized, will be repaid from the proceeds of the U.S. Sale Transaction. We estimate that this acquisition will add approximately $0.10 (annualized) to our AFFO per share in the first year, excluding any temporary financing costs.

SELF-INSURED LIABILITIES EXPENSE

The expense for self-insured liabilities has been reclassified to discontinued operations. However, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare and the Captive. The accrual for self-insured liabilities was $133.4 million (US$115.0 million) at December 31, 2014, and the investments held for self-insured liabilities totalled $154.2 million (US$132.9 million), neither of which have been classified as held for sale on the consolidated statement of financial position.

Our expense for self-insured liabilities, included in discontinued operations, was $9.5 million in the 2014 fourth quarter, or US$8.3 million, compared to US$14.1 million in the 2014 third quarter, US$10.7 million in the 2014 second quarter, and US$6.7 million in the 2014 first quarter. The sequential changes in the quarters this year were primarily due to fluctuations in our Pennsylvania based claims, as determined by the results of our independent actuarial reviews conducted in the second and third quarters and at year end. For 2014, our total expense for self-insured liabilities was $44.0 million (US$39.8 million), compared to $54.5 million (US$52.9 million) recorded in 2013.

ONTARIO HOME HEALTH CARE FUNDING UPDATE

The Ontario government has announced its intention to fund the shortfall in the previously announced government mandated wage increases for personal support workers (PSWs) in the publicly funded home and community care sector by increasing the funding for incremental benefit costs to 22.7% from 16% for the 2014/2015 fiscal year. As a result, we have accrued for $0.3 million of additional funding in the 2014 fourth quarter, retroactive to April 1, 2014, which covers our shortfall. As previously announced, in September 2014, PSWs received an hourly wage increase of $1.50 retroactive to April 1, 2014, and will receive an additional $1.50 on April 1, 2015, with a further $1.00 increase on April 1, 2016. The government had initially provided funding for the base wage increase and an additional 16% to cover incremental benefit costs. However, the incremental benefit costs for providers in the industry were higher. We had estimated, based on our current service volumes, that our incremental benefit costs represented a shortfall of approximately $1.0 million per annum by year three, of which $0.4 million per annum would be incurred in the first year. While this recent announcement addresses the shortfall for fiscal 2014/2015, the Ontario government has not confirmed if the funding for incremental benefit costs will continue at these levels in the 2015/2016 fiscal year.

2014 FOURTH QUARTER FINANCIAL REVIEW

Consolidated Net Operating Income

Consolidated continuing operations – net operating income was relatively flat at $29.3 million in the 2014 fourth quarter compared to $29.2 million in the same 2013 period, representing 13.8% and 14.2% of revenue, respectively. Net operating income of our U.S. operations improved by $0.6 million, and was partially offset by a decline in net operating income of $0.5 million from Canadian operations which was negatively impacted due to prior period revenue of $1.2 million recorded in 2013 in our long-term care operations.

Long-term care operations – net operating income declined by $0.5 million, representing an increase in revenue of $2.4 million, or 1.6%, offset by higher costs of $2.9 million. The revenue improvement of $2.4 million included approximately $2.2 million in the Ontario flow-through envelopes, other funding enhancements of $1.4 million, partially offset by lower prior period revenue of $1.2 million that was realized in the 2013 fourth quarter. Operating expenses increased by $2.9 million, of which $2.5 million was due to a 2.3% increase in higher labour costs.

Home health care operations – net operating income of $6.4 million this quarter was unchanged with revenue increases of $2.7 million offset by higher costs. Revenue improvements included an increase for government funded PSW wage increases, of approximately $2.1 million this quarter and a 2.3% increase in volumes, partially offset by lower rates due to changes in mix in services provided. Cost increases were primarily labour related and included an unfavourable year-end accrual adjustment of approximately $0.4 million.

Other Canadian operations – net operating income of $1.6 million this quarter from our managed contracts and group purchasing operations was unchanged from the 2013 fourth quarter, with revenue improvements of $0.8 million due to growth in business offset by cost increases, which were negatively impacted by approximately $0.1 million of year-end accrual adjustments.

U.S. operations – net operating income improved by $0.6 million, which included a $0.3 million positive effect of the weaker Canadian dollar, and higher investment income from our captive insurance company of $0.5 million, partially offset by a decline in health technology services of $0.2 million primarily due to a decline in external clients.

Administrative Costs

Administrative costs of $5.0 million this quarter related to our Canadian operations. In comparison, the administrative costs in the 2013 fourth quarter of $8.2 million represented $5.6 million from our Canadian operations and $2.6 million from our U.S. operations. This quarter’s costs were favourably impacted by the receipt of a prior period reinsurance premium refund of $2.8 million (US$2.6 million) and by lower professional fees.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA increased by $3.3 million to $23.0 million in the 2014 fourth quarter from $19.7 million in the same 2013 period, representing 10.8% and 9.6% of revenue, respectively. This improvement was primarily due to the decline in administrative costs of $3.2 million. Both periods were favourably impacted by prior period items, being the receipt this quarter of the reinsurance premium refund of $2.8 million, and the receipt in the 2013 fourth quarter of prior period revenue of $1.2 million. Excluding these items, Adjusted EBITDA would have been $20.1 million this quarter compared to $18.5 million in the 2013 fourth quarter, representing 9.5% and 9.1% of revenue, respectively.

2014 FINANCIAL REVIEW

Consolidated Revenue

Consolidated continuing operations – revenue grew by $32.3 million to $816.1 million in 2014 from $783.8 million in 2013, substantially all of which was from same-facility operations. Revenue from non same-facility operations, relating to our new northern Ontario nursing centres and closed Alberta home health care operations, declined by approximately $0.1 million ($37.6 million in 2014 and $37.7 million in 2013).

Long-term care operations – revenue improved by $14.8 million to $583.7 million in 2014, with approximately $10.7 million of the increase realized from same-facility operations. Revenue from non same-facility operations contributed $4.1 million to the improvement ($37.6 million in 2014 and $33.5 million in 2013), reflecting the full year of operation of the new northern Ontario centres, which added 54 beds to our resident capacity and an improved mix of preferred accommodation. Revenue from same-facility operations improved by $10.7 million, or 2.0%, primarily due to funding enhancements of $11.9 million, of which approximately $7.0 million related to our Ontario flow-through envelopes and were therefore directly offset by increased costs of resident care, partially offset by lower prior period revenue of approximately $1.2 million. Average occupancy from same-facility operations remained relatively unchanged at 97.9% this year compared to 97.8% in 2013. Average daily revenue rates from same-facility operations improved by 1.9% over 2013.

Home health care operations – revenue improved by $11.4 million to $185.5 million, and was impacted by a decline of $4.2 million due to the closing of the Alberta operations in 2013. The increase in revenue from the Ontario home health care operations of $15.6 million included approximately $3.9 million of enhanced funding to support an increase in PSW wages, and the balance was largely due to a 6.5% increase in daily hours of service provided to 13,925 in 2014 from 13,074 in 2013.

Other Canadian operations – revenue from our managed contracts and group purchasing operations increased by $2.9 million to $12.8 million in 2014, primarily due to the increase of approximately 1,100 beds added to the managed portfolio during 2014.

U.S. operations – revenue increased by $3.3 million to $34.1 million, and included a $2.3 million positive effect of a weaker Canadian dollar. The balance of the improvement of $1.0 million included a $0.4 million increase in investment income, and a $0.6 million increase in our health technology services, provided through VCPI. VCPI generated total revenue of US$29.1 million in 2014 compared to US$28.5 million in 2013, and included increased services provided to EHSI of US$8.4 million and US$6.8 million, respectively. Revenue from VCPI’s external contracts declined by approximately US$1.0 million between periods primarily due to a reduction in clients served, from 2,356 centres at the beginning of the year to 2,130 centres at the end of 2014.

Consolidated Net Operating Income

Consolidated continuing operations – net operating income improved by $1.9 million to $108.0 million in 2014 from $106.1 million in 2013, representing 13.2% and 13.5% of revenue, respectively. Non same-facility operations contributed $1.1 million to this improvement ($4.0 million in 2014 and $2.9 million in 2013), with $1.6 million from the new northern Ontario centres, partially offset by a loss of income of $0.5 million from the closing of the Alberta home health care operations. The balance of the improvement in net operating income of $0.8 million was from same-facility operations and included the impact of lower prior period long-term care revenue of $1.2 million. The majority of our operating costs are labour related, with labour costs representing 83.3% and 83.4% of operating costs in 2014 and 2013, respectively, and as a percentage of revenue were 72.2% and 72.1%, respectively.

Long-term care operations – net operating income declined by $1.6 million, of which $3.2 million was from same-facility operations, partially offset by a $1.6 million improvement from our non same-facility northern Ontario centres ($4.0 million in 2014 and $2.4 million in 2013). The $3.2 million decline from same-facility operations was negatively impacted by lower prior period revenue of $1.2 million, with the $2.0 million balance reflecting cost increases of $13.9 million in excess of funding enhancements of $11.9 million. Costs increases related primarily to higher labour costs of approximately $11.2 million, or 2.9%, and the balance included increases in repairs and maintenance of $1.0 million, food and supplies of $1.1 million, and utilities of $0.3 million. Labour costs of our long-term care operations represented 82.8% and 82.9% of operating expenses in 2014 and 2013, respectively.

Home health care operations – net operating income improved by $1.8 million, and included the loss of income from the closed Alberta operations of $0.5 million. The balance of the $2.3 million improvement from our Ontario operations was largely due to the 6.5% increase in volumes. Labour costs of our home health care operations represented 89.7% and 88.9% of its operating expenses in 2014 and 2013, respectively.

Other Canadian operations – net operating income improved by $1.0 million, reflecting higher revenue from managed contracts and group purchasing operations, partially offset by increased staffing to support the clients served.

U.S. operations – net operating income improved by $0.8 million, which included a $0.6 million positive effect of the weaker Canadian dollar, and higher investment income from our captive insurance company of $0.4 million, partially offset by a decline in health technology services of $0.2 million due to a reduction in external clients served. The increase in revenue from services provided to EHSI was offset by higher procurement and production services.

Administrative Costs

Administrative costs of $28.3 million for the year included $20.6 million from our Canadian operations and $7.7 million from our U.S. operations. In comparison, the administrative costs in 2013 of $31.4 million represented $20.8 million from our Canadian operations and $10.6 million from our U.S. operations. The decline of $3.1 million in 2014, was primarily due to a prior period reinsurance premium refund of $2.8 million (US$2.6 million) recognized by our U.S. captive insurance company this year. The balance of the decline of $0.3 million was largely due to a decline in professional fees, partially offset by an increase in our expense for share appreciation rights of $0.3 million.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA increased by $5.1 million to $74.6 million in 2014 from $69.5 million in 2013, representing 9.1% and 8.9% of revenue, respectively. The improvement was realized from the increase in net operating income of $1.9 million and the reduction in administrative and lease costs of $3.2 million. Both years were favourably impacted by prior period items, being the receipt this year of the reinsurance premium refund of $2.8 million, and the receipt last year of prior period revenue of $1.2 million. Excluding these items, Adjusted EBITDA would have been $71.8 million this year compared to $68.3 million in 2013, representing 8.8% and 8.7% of revenue, respectively.

DISCONTINUED OPERATIONS

Earnings from discontinued operations were $8.0 million in the 2014 fourth quarter compared to a loss of $9.7 million in the 2013 fourth quarter. The 2014 fourth quarter results were favourably impacted by a reduction in depreciation and amortization expense of pre-tax $8.4 million, primarily as a result of the reclassification of these operations to assets held for sale this quarter. The 2013 fourth quarter results were unfavourably impacted by an increase in expense for self-insured liabilities of pre-tax $11.6 million ($9.5 million this quarter compared to $21.1 million in the 2013 fourth quarter) and by a pre-tax impairment charge of $7.3 million related to 11 nursing centres designated as held for sale in the 2013 fourth quarter.

The loss from discontinued operations was $23.1 million in 2014 compared to a loss of $4.9 million in 2013 and was impacted by the provision for U.S. government investigations of pre-tax $42.2 million recorded in the 2014 second quarter, partially offset by a reduction in self-insured liabilities expense of pre-tax $10.5 million between years, and depreciation and amortization expense of pre-tax $12.0 million.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

2014 Fourth Quarter Financial Review

AFFO was $19.4 million ($0.221 per basic share) in the 2014 fourth quarter compared to $10.4 million ($0.119 per basic share) in the 2013 fourth quarter, representing an increase of $9.0 million, of which $5.4 million was from discontinued operations and $3.6 million was from continuing operations.

The improvement in AFFO from discontinued operations of $5.4 million was due to an increase in Adjusted EBITDA from discontinued operations of $11.0 million, of which $11.6 million related to a reduction in the self-insured liabilities expense, and lower maintenance capex of $2.2 million, partially offset by a $6.0 million increase in current taxes and higher net finance costs of $1.8 million.

AFFO from continuing operations was $10.6 million ($0.121 per share) in the 2014 fourth quarter compared to $7.0 million in the 2013 fourth quarter ($0.080 per share). The improvement of $3.6 million was due to an increase in Adjusted EBITDA of $3.3 million, lower net finance costs of $1.1 million and a decline in maintenance capex of $0.2 million, partially offset by higher current taxes of $1.0 million. Current income taxes for the 2014 fourth quarter were $0.8 million representing 6.2% of pre-tax FFO from continuing operations, and were reduced by approximately $0.7 million due to the utilization of non-capital loss carryforwards. In comparison, current income taxes for the 2013 fourth quarter were a recovery of $0.2 million, with taxable income predominately sheltered by non-capital losses carryforwards.

2014 Financial Review

AFFO was $73.7 million ($0.840 per basic share) in 2014 compared to $71.1 million ($0.820 per basic share) in 2013, representing an increase of $2.6 million, of which $1.5 million was from continuing operations and $1.1 million was from discontinued operations.

The improvement in AFFO from discontinued operations of $1.1 million was due to an increase in Adjusted EBITDA from discontinued operations of $16.7 million, of which $10.5 million related to a reduction in the self-insured liabilities expense, and lower maintenance capex of $3.3 million, partially offset by a $15.4 million increase in current taxes and higher net finance costs of $3.5 million. The increase in current income taxes this year included higher withholding taxes on cross-border dividends of $6.3 million ($6.8 million this year compared to $0.5 million in 2013) and the impact of book-to-file adjustments that reduced current income taxes by approximately $4.8 million in 2013.

AFFO from continuing operations was $34.4 million ($0.392 per share) in 2014 compared to $32.9 million in 2013 ($0.379 per share). The improvement of $1.5 million was due to an increase in Adjusted EBITDA of $5.1 million, lower net finance costs of $1.3 million, an increase in principal government capital funding payments of $0.6 million, partially offset by higher current taxes of $3.0 million and an increase in maintenance capex of $2.5 million. Current income taxes for 2014 were $4.1 million representing 11.9% of pre-tax FFO from continuing operations, and were reduced by approximately $2.0 million due to the utilization of non-capital loss carryforwards. In comparison, current income taxes for 2013 were $1.1 million and were reduced by approximately $5.6 million due to the utilization of non-capital losses.

The effective tax rates on our FFO can be impacted by: adjustments to our estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; cross-border dividends; and the ability to utilize loss carryforwards. The restructuring of our Canadian legal entities in mid-2012 enhanced our ability to utilize available non-capital loss carryforwards. Our Canadian non-capital loss carryforwards were utilized by the end of 2014. As a result, we anticipate that our annual effective tax rate on FFO from continuing operations for 2015 will increase over the 2014 level, to between 20% and 25%.

Maintenance capex from continuing operations of $6.4 million in the 2014 fourth quarter was relatively unchanged from $6.5 million incurred in the 2013 fourth quarter, and was higher from the 2014 third quarter level of $3.4 million, representing 3.0%, 3.2% and 1.6% of revenue from continuing operations, respectively. For the year, maintenance capex from continuing operations was $12.8 million compared to $10.3 million in 2013, representing 1.6% and 1.3% of revenue from continuing operations, respectively. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. It is our intention to spend between 1.5% and 2.0% of revenue annually, which is consistent with our objective to maintain and upgrade our centres. In 2015, we are expecting to spend in the range of $13 million to $16 million in maintenance capex.

Dividends declared in 2014 totalled $42.1 million, or $0.48 per share, representing approximately 57% of AFFO of $73.7 million, or $0.84 per basic share. For the 2013 year, dividends declared totalled $52.0 million, or $0.60 per share, representing approximately 73% of total AFFO of $71.1 million, or $0.820 per basic share.

NORMAL COURSE ISSUER BID

As previously announced, we initiated a normal course issuer bid (the “Bid”) on December 31, 2014, for up to 8,630,000 of our common shares (the “Common Shares”) through the facilities of the TSX, and on alternative Canadian trading platforms. To date in 2015, we have acquired for cancellation 293,800 Common Shares at an average share price of $6.79, for a total cost of $2.0 million.

CONFERENCE CALL AND WEBCAST

On February 26, 2015, at 10:00 a.m. (ET), we will hold a conference call to discuss our 2014 fourth quarter and year end results. The call will be webcast live and archived in the investors/presentations & webcasts section of our website at www.extendicare.com. Alternatively, the call-in number is 1-877-405-9213 or 416-695-7806, conference ID number 7882196#. A replay of the call will be available until midnight on March 13, 2015. To access the rebroadcast, dial 1-800-408-3053 or 905-694-9451, followed by the passcode 6165896#. Slides accompanying remarks during the call will be posted to our website as part of the live webcast. Also, a supplemental information package containing historical quarterly financial results and operating statistics can be found on the website under the investors/financial reports section.

ABOUT US

Extendicare is a leading provider of care and services for seniors throughout Canada. Through our network of 104 operated senior care centres (58 owned/46 managed) as well as our home health care operations, we are committed to delivering care throughout the health care continuum to meet the needs of a growing seniors’ population in Canada. Our qualified and highly trained workforce of 16,800 individuals is dedicated to helping people live better through a commitment to quality service and a passion for what we do. As previously reported, commencing this quarter our U.S. senior care operations have been classified as discontinued, with sale transactions expected to close in the 2015 second quarter.

Retrospective Adoption of IFRIC 21, Levies

Upon the adoption of IFRIC 21, Levies, effective January 1, 2014, the Company has reassessed the timing of when to accrue property taxes imposed by specific legislation in the jurisdictions where it owns property. The Company previously accrued for Canadian and U.S. property taxes evenly throughout the year. In accordance with IFRIC 21, the Company has determined that the liability to pay the U.S. property taxes should be recognized in full at a single point in time when the obligating event occurs. The obligating event for the U.S. properties has been determined to be January 1, as stated in the legislation. The Company’s recognition of property taxes for its Canadian properties remains unchanged. Therefore, this change in accounting policy only impacts our discontinued operations. The Company has retrospectively applied this change in accounting policy to January 1, 2013, and has restated its comparative interim periods for 2013 to reflect the recognition of the full amount of the annual U.S. property tax expense in the first quarter.

Non-GAAP Measures

Extendicare assesses and measures operating results and financial position based on performance measures referred to as “net operating income”, “Adjusted EBITDA”, “earnings (loss) from continuing operations before separately reported items”, “Funds from Operations”, and “Adjusted Funds from Operations”. These are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure of the ability of Extendicare to make cash distributions; or (ii) certain ongoing rights and obligations of Extendicare may be calculated using these measures. Such non-GAAP measures may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP. Reconciliations of these non-GAAP measures from net earnings (loss) and/or from net cash from operations, where applicable, are provided in this press release on the Non-GAAP Reconciliations page. Detailed descriptions of these terms can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

Forward-looking Statements

Information provided by Extendicare from time to time, including this release, contains or may contain forward-looking statements concerning anticipated financial events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding its business operations, business strategy, and financial condition. Forward-looking statements can be identified because they generally contain the words "expect", "intend", "anticipate", "believe", "estimate", "project", "plan" or "objective" or other similar expressions or the negative thereof. Forward-looking statements reflect management's beliefs and assumptions and are based on information currently available, and Extendicare assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Extendicare to differ materially from those expressed or implied in the statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare's forward-looking statements. Further information can be found in the disclosure documents filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare's website at www.extendicare.com.

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Extendicare Inc.
Consolidated Statements of Earnings (Loss)

(in thousands of Canadian dollars)	Three months ended December 31		Twelve months ended December 31	
	2014	**2013**	**2014**	**2013**
Revenue				
Nursing and assisted living centres	**152,066**	**149,677**	**583,678**	**568,870**
Home health care	**47,477**	**44,717**	**185,491**	**174,087**
Health technology services	**8,350**	**7,501**	**32,165**	**29,363**
Management, consulting and other	**4,943**	**3,505**	**14,785**	**11,489**
Total revenue	**212,836**	**205,400**	**816,119**	**783,809**
Operating expenses	**183,523**	**176,210**	**708,096**	**677,712**
Net operating income (1)	**29,313**	**29,190**	**108,023**	**106,097**
Administrative costs	**5,021**	**8,179**	**28,293**	**31,384**
Lease costs	**1,269**	**1,304**	**5,064**	**5,160**
Adjusted EBITDA (1)	**23,023**	**19,707**	**74,666**	**69,553**
Depreciation and amortization	**6,680**	**5,590**	**23,844**	**21,639**
Loss from asset impairment, disposals and other items	**7,151**	**1,048**	**11,031**	**1,963**
Earnings before net finance costs and income taxes	**9,192**	**13,069**	**39,791**	**45,951**
Finance costs				
Interest expense	**7,512**	**8,905**	**32,905**	**34,501**
Interest income	**(906)**	**(1,204)**	**(3,835)**	**(4,171)**
Accretion costs	**557**	**488**	**2,176**	**1,906**
Fair value adjustments	**-**	**(103)**	**(296)**	**(3,099)**
Loss on foreign exchange and financial instruments	**-**	**1**	**-**	**519**
Net finance costs	**7,163**	**8,087**	**30,950**	**29,656**
Earnings from continuing operations before income taxes	**2,029**	**4,982**	**8,841**	**16,295**
Income tax expense (recovery)				
Current	**834**	**(242)**	**4,063**	**1,073**
Deferred	**(31)**	**1,748**	**456**	**5,057**
	803	**1,506**	**4,519**	**6,130**
Earnings from continuing operations	**1,226**	**3,476**	**4,322**	**10,165**
Earnings (loss) from discontinued operations	**7,982**	**(9,745)**	**(23,075)**	**(4,882)**
Net earnings (loss)	**9,208**	**(6,269)**	**(18,753)**	**5,283**
Average U.S./Cdn. dollar exchange rate	***1.1351***	*1.0489*	***1.1045***	*1.0299*

(1) Refer to discussion of non-GAAP measures.

Certain items have been restated for the adoption of the new standard, IFRIC 21 "Levies".

Extendicare Inc.
Consolidated Statements of Financial Position

(in thousands of Canadian dollars, unless otherwise noted)	**December 31 2014**	**December 31 2013**
Assets		
Current assets		
Cash and short-term investments	**35,495**	**95,999**
Restricted cash	**1,085**	**18,668**
Accounts receivable, less allowance	**41,036**	**210,795**
Income taxes recoverable	**65**	**9,395**
Assets held for sale	**1,254,535**	**36,418**
Other current assets	**10,409**	**25,475**
Total current assets	**1,342,625**	**396,750**
Non-current assets		
Property and equipment, net of accumulated depreciation *of $182,180 and $403,071, respectively*	**331,134**	**1,152,007**
Goodwill and other intangible assets	**16,227**	**79,229**
Investments held for self-insured liabilities	**154,178**	**118,827**
Other assets	**63,187**	**94,744**
Deferred tax assets	**7,935**	**7,531**
Total non-current assets	**572,661**	**1,452,338**
Total Assets	**1,915,286**	**1,849,088**
Liabilities and Equity		
Current liabilities		
Accounts payable	**4,998**	**31,031**
Accrued liabilities	**103,907**	**199,165**
Liabilities held for sale	**1,130,813**	**16,356**
Accrual for self-insured liabilities	**25,984**	**28,052**
Current portion of long-term debt	**25,789**	**148,051**
Income taxes payable	**4,043**	**10,111**
Total current liabilities	**1,295,534**	**432,766**
Non-current liabilities		
Provisions	**7,535**	**28,801**
Accrual for self-insured liabilities	**107,460**	**87,257**
Long-term debt	**453,200**	**1,016,785**
Other long-term liabilities	**38,014**	**46,147**
Deferred tax liabilities	**16,047**	**199,953**
Total non-current liabilities	**622,256**	**1,378,943**
Total liabilities	**1,917,790**	**1,811,709**
Shareholders' equity (deficiency)	**(2,504)**	**37,379**
Total Liabilities and Equity	**1,915,286**	**1,849,088**
Closing U.S./Cdn. dollar exchange rate	***1.1601***	*1.0636*

Certain items have been restated for the adoption of the new standard, IFRIC 21 "Levies".

Extendicare Inc.
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended December 31		Twelve months ended December 31	
	2014	**2013**	**2014**	**2013**
Operating Activities				
Net earnings (loss)	**9,208**	(6,269)	**(18,753)**	5,283
Adjustments for:				
Depreciation and amortization	**12,600**	19,949	**68,142**	77,929
Provision for self-insured liabilities	**9,519**	21,130	**44,010**	54,482
Payments for self-insured liabilities	**(6,238)**	(5,607)	**(38,091)**	(42,720)
Deferred taxes	**4,583**	(349)	**(6,745)**	(1,204)
Current taxes	**(480)**	(2,330)	**5,316**	4,567
Loss from asset impairment, disposals and other items				
Continuing operations	**7,151**	1,048	**11,031**	1,963
Discontinued operations	**-**	7,287	**12,187**	7,678
Gain from derivative financial instruments and foreign exchange	**-**	(102)	**(296)**	(2,580)
Net finance costs	**16,142**	15,448	**64,418**	62,158
Interest capitalized	**-**	(59)	**-**	(1,232)
Other	**(43)**	(2)	**(43)**	(335)
	52,442	50,144	**141,176**	165,989
Net change in operating assets and liabilities				
Accounts receivable	**1,516**	(21,932)	**16,430**	6,246
Other current assets	**12,172**	2,905	**10,126**	4,541
Provision for U.S. government investigations	**(42,240)**	-	**-**	-
Accounts payable and accrued liabilities	**3,900**	5,936	**(19,679)**	(15,933)
	27,790	37,053	**148,053**	160,843
Interest paid	**(13,722)**	(14,831)	**(61,606)**	(59,585)
Interest received	**1,257**	1,387	**4,415**	4,657
Income taxes paid	**1,568**	815	**(5,255)**	(7,999)
Net cash from operating activities	**16,893**	24,424	**85,607**	97,916
Investing Activities				
Purchase of property, equipment and software - growth	**(266)**	(539)	**(2,782)**	(27,515)
Purchase of property, equipment and software - maintenance	**(9,899)**	(12,254)	**(27,441)**	(28,238)
Acquisition of nursing centre, net of cash acquired	**(6,946)**	-	**(6,946)**	-
Net proceeds from dispositions	**-**	2,507	**1,912**	3,671
Decrease (increase) in investments held for self-insured liabilities	**(15,120)**	(4,599)	**(20,458)**	6,908
Other assets	**638**	1,787	**5,993**	1,646
Net cash from investing activities	**(31,593)**	(13,098)	**(49,722)**	(43,528)
Financing Activities				
Issue of long-term debt, excluding line of credit	**6,964**	8,229	**149,538**	95,703
Repayment of long-term debt, excluding line of credit	**(8,720)**	(11,697)	**(147,215)**	(84,101)
Repayment on line of credit	**-**	(1,061)	**(2,303)**	(6,179)
Decrease (increase) in restricted cash	**(4,352)**	(7,064)	**2,731**	9,799
Dividends paid	**(8,973)**	(8,881)	**(35,624)**	(45,534)
Financing costs	**(126)**	(116)	**(4,827)**	(2,065)
Other	**-**	(35)	**-**	5
Net cash from financing activities	**(15,207)**	(20,625)	**(37,700)**	(32,372)
Increase (decrease) in cash and cash equivalents	**(29,907)**	(9,299)	**(1,815)**	22,016
Cash and cash equivalents at beginning of period	**127,459**	104,132	**95,999**	71,398
Foreign exchange gain on cash held in foreign currency	**1,247**	1,166	**4,615**	2,585
Cash and cash equivalents at end of period	**98,799**	95,999	**98,799**	95,999
Less: cash from discontinued operations	(63,304)	-	(63,304)	-
Cash and cash equivalents at end of period, continuing operations	**35,495**	95,999	**35,495**	95,999

Certain items have been restated for the adoption of the new standard, IFRIC 21 "Levies".

Extendicare Inc.
Canadian Operations - Operating Statistics

(amounts in Canadian dollars, unless otherwise noted)	Three months ended December 31		Twelve months ended December 31	
	2014	**2013**	**2014**	**2013**
Canadian Senior Care Centres				
Number of Centres Operated at Period End				
Owned/leased	**58**	58	**58**	58
Managed	**46**	35	**46**	35
	104	93	**104**	93
Operational Resident Capacity at Period End				
Owned/leased	**8,116**	8,119	**8,116**	8,119
Managed	**5,470**	4,360	**5,470**	4,360
	13,586	12,479	**13,586**	12,479
Average Daily Revenue Rate (owned/leased centres)				
Total operations	**$204.14**	$201.82	**$198.03**	$194.33
Same-facility basis (1)	**204.36**	201.20	**198.09**	194.41
Average Occupancy (owned/leased centres)				
Total operations	**98.2 %**	97.8 %	**97.9 %**	97.7 %
Same-facility basis (1)	**98.1**	98.2	**97.9**	97.8
Ontario LTC total average occupancy	**98.4**	97.6	**98.0**	97.7
Ontario LTC preferred accommodation				
"New" centres − private	**97.5**	83.1	**95.6**	89.3
"C" centres − private	**98.5**	96.7	**97.6**	96.5
"C" centres - semi-private (2)	**61.0**	54.9	**60.1**	61.0
Home Health Care − hours of service				
Total operations				
Hours of service (000's)	**1,283.4**	1,254.7	**5,082.5**	4,911.3
Hours per day	**13,950**	13,638	**13,925**	13,456
Same-facility basis				
Hours of service (000's)	**1,283.4**	1,254.6	**5,082.5**	4,771.9
Hours per day	**13,950**	13,637	**13,925**	13,074

(1) The Canadian non same-facility operations are composed of our nursing centre operations in Sault Ste. Marie and Timmins, Ontario, where we opened two new nursing centres in 2013 that resulted in the closing of three existing centres and the downsizing of another, and our Alberta home health care operations, where we discontinued operating in August 2013.

(2) Average occupany reported for the available semi-private rooms, reflects percentage of residents occupying those beds and paying the premium rate.

Extendicare Inc.
Supplemental Information – FFO and AFFO

The following table provides a reconciliation of Adjusted EBITDA to Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) for the periods ended December 31, 2014 and 2013.[(1)]

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended December 31**		**Twelve months ended December 31**	
	2014	**2013**	**2014**	**2013**
Adjusted EBITDA	**23,023**	19,707	**74,666**	69,553
Depreciation for FFEC (maintenance capex) [(2)]	**(2,466)**	(2,256)	**(9,394)**	(8,780)
Accretion costs	**(557)**	(488)	**(2,176)**	(1,906)
Interest expense	**(7,512)**	(8,905)	**(32,905)**	(34,501)
Interest income	**906**	1,204	**3,835**	4,171
	13,394	9,262	**34,026**	28,537
Current income tax recovery (expense) [(3)]	**(824)**	219	**(4,063)**	(1,096)
FFO (continuing operations)	**12,570**	9,481	**29,963**	27,441
Amortization of financing costs	**357**	370	**1,552**	1,597
Accretion costs	**557**	488	**2,176**	1,906
Principal portion of government capital funding payments	**1,006**	940	**4,033**	3,389
Additional maintenance capex [(2)]	**(3,886)**	(4,290)	**(3,367)**	(1,482)
AFFO (continuing operations)	**10,604**	6,989	**34,357**	32,851
AFFO (discontinued operations)	**8,813**	3,422	**39,335**	38,263
AFFO	**19,417**	10,411	**73,692**	71,114
Per Basic Share ($)				
FFO (continuing operations)	**0.144**	0.109	**0.342**	0.316
FFO (total operations)	**0.230**	0.167	**0.765**	0.770
AFFO (continuing operations)	**0.121**	0.080	**0.392**	0.379
AFFO (total operations)	**0.221**	0.119	**0.840**	0.820
Per Diluted Share ($)				
FFO (continuing operations)	**0.144**	0.109	**0.342**	0.316
FFO (total operations)	**0.214**	0.168	**0.747**	0.756
AFFO (continuing operations)	**0.121**	0.080	**0.392**	0.379
AFFO (total operations)	**0.204**	0.124	**0.799**	0.784
Dividends declared	**10,573**	10,462	**42,131**	52,023
Dividends declared per share ($)	**0.120**	0.120	**0.480**	0.600
Basic weighted average number of shares *(thousands)*	**88,066**	87,140	**87,736**	86,738
Diluted weighted average number of shares *(thousands)*	**99,311**	104,109	**98,980**	103,708

(1) "Adjusted EBITDA", "funds from operations" and "adjusted funds from operations" are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP. Refer to the discussion of non-GAAP measures.

(2) These two line items combined represent the total of our maintenance capex incurred in the period. An amount equivalent to our depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference in total maintenance capex incurred is adjusted for in determining AFFO.

(3) Excludes current tax with respect to the loss (gain) from derivative financial instruments, foreign exchange, asset impairment, disposals and other items that are excluded from the computation of AFFO.

Extendicare Inc.
Segmented Information

(in thousands of Canadian dollars)	Long-term Care	Home Health Care	Other Canadian Operations	Corporate Canada	Total Canada	Total U.S.	Total
Q4 2014							
Revenue	**152,066**	**47,477**	**3,479**	**5**	**203,027**	**9,809**	**212,836**
Operating expenses	**134,363**	**41,110**	**1,830**	**-**	**177,303**	**6,220**	**183,523**
Net operating income	**17,703**	**6,367**	**1,649**	**5**	**25,724**	**3,589**	**29,313**
Net operating income margin (% of revenue)	***11.6%***	***13.4%***	***47.4%***	***100.0%***	***12.7%***	***36.6%***	***13.8%***
Q4 2013							
Revenue	149,676	44,717	2,636	23	197,052	8,348	205,400
Operating expenses	131,477	38,385	977	-	170,839	5,371	176,210
Net operating income	18,199	6,332	1,659	23	26,213	2,977	29,190
Net operating income margin (% of revenue)	*12.2%*	*14.2%*	*62.9%*	*100.0%*	*13.3%*	*35.7%*	*14.2%*
Q4 2014 over Q4 2013 Change							
Revenue	2,390	2,760	843	(18)	5,975	1,461	7,436
Operating expenses	2,886	2,725	853	-	6,464	849	7,313
Net operating income	(496)	35	(10)	(18)	(489)	612	123
Year 2014							
Revenue	**583,678**	**185,491**	**12,800**	**43**	**782,012**	**34,107**	**816,119**
Operating expenses	**515,128**	**161,750**	**6,777**	**-**	**683,655**	**24,441**	**708,096**
Net operating income	**68,550**	**23,741**	**6,023**	**43**	**98,357**	**9,666**	**108,023**
Net operating income margin (% of revenue)	***11.7%***	***12.8%***	***47.1%***	***100.0%***	***12.6%***	***28.3%***	***13.2%***
Year 2013							
Revenue	568,870	174,087	9,858	146	752,961	30,848	783,809
Operating expenses	498,750	152,105	4,893	-	655,748	21,964	677,712
Net operating income	70,120	21,982	4,965	146	97,213	8,884	106,097
Net operating income margin (% of revenue)	*12.3%*	*12.6%*	*50.4%*	*100.0%*	*12.9%*	*28.8%*	*13.5%*
Year 2014 over Year 2013 Change							
Revenue	14,808	11,404	2,942	(103)	29,051	3,259	32,310
Operating expenses	16,378	9,645	1,884	-	27,907	2,477	30,384
Net operating income	(1,570)	1,759	1,058	(103)	1,144	782	1,926

	Q4 2014			Q4 2013			Total
(in thousands of Canadian dollars)	U.S.	Canada	Total	U.S.	Canada	Total	Change
AFFO (continuing operations)	**2,939**	**7,665**	**10,604**	(461)	7,450	6,989	3,615
Discontinued operations	**8,813**	**-**	**8,813**	3,422	-	3,422	5,391
AFFO	**11,752**	**7,665**	**19,417**	2,961	7,450	10,411	9,006
Maintenance capex (continuing operations)	**546**	**5,806**	**6,352**	754	5,792	6,546	(194)
Discontinued operations	**3,547**	**-**	**3,547**	5,708	-	5,708	(2,161)
Maintenance capex	**4,093**	**5,806**	**9,899**	6,462	5,792	12,254	(2,355)

	Year 2014			Year 2013			Total
(in thousands of Canadian dollars)	U.S.	Canada	Total	U.S.	Canada	Total	Change
AFFO (continuing operations)	**(874)**	**35,231**	**34,357**	(4,496)	37,347	32,851	1,506
Discontinued operations	**39,335**	**-**	**39,335**	38,263	-	38,263	1,072
AFFO	**38,461**	**35,231**	**73,692**	33,767	37,347	71,114	2,578
Maintenance capex (continuing operations)	**2,323**	**10,438**	**12,761**	2,181	8,081	10,262	2,499
Discontinued operations	**14,680**	**-**	**14,680**	17,976	-	17,976	(3,296)
Maintenance capex	**17,003**	**10,438**	**27,441**	20,157	8,081	28,238	(797)

Extendicare Inc.
Non-GAAP Reconciliations

(in thousands of Canadian dollars unless otherwise noted)	**Three months ended December 31**		**Twelve months ended December 31**	
	2014	**2013**	**2014**	**2013**
Reconciliation of Cash Provided by Operating Activities to AFFO:				
Net cash from operating activities	**16,893**	24,424	**85,607**	97,916
Add (Deduct):				
Net change in operating assets and liabilities, including interest and taxes	**21,621**	14,374	**(7,043)**	9,699
Current income taxes on items excluded from AFFO (1)	**(4,232)**	977	**(17,828)**	(174)
Net provisions and payments for self-insured liabilities	**(3,281)**	(15,523)	**(5,919)**	(11,762)
Depreciation for FFEC (maintenance capex) (2)	**(6,370)**	(5,407)	**(22,895)**	(22,018)
Principal portion of government capital funding payments	**1,006**	940	**4,033**	3,389
Additional maintenance capex	**(3,529)**	(6,847)	**(4,546)**	(6,220)
Provision for U.S. government investigations	**-**	-	**42,240**	-
Property taxes accounted for under IFRIC 21	**(2,734)**	(2,529)	**-**	(51)
Other	**43**	2	**43**	335
AFFO (2)	**19,417**	10,411	**73,692**	71,114
Reconciliation of Earnings before Income Taxes to Adjusted EBITDA and Net Operating Income:				
Earnings from continuing operations before income taxes	**2,029**	4,982	**8,841**	16,295
Add (Deduct):				
Depreciation and amortization	**6,680**	5,590	**23,844**	21,639
Net finance costs	**7,163**	8,087	**30,950**	29,656
Loss from asset impairment, disposals and other items	**7,151**	1,048	**11,031**	1,963
Adjusted EBITDA (2)	**23,023**	19,707	**74,666**	69,553
Add (Deduct):				
Administrative costs	**5,021**	**8,179**	**28,293**	**31,384**
Lease costs	**1,269**	**1,304**	**5,064**	**5,160**
Net operating income (2)	**29,313**	29,190	**108,023**	106,097

(1) Represents current income tax with respect to the property taxes accounted for under IFRIC 21, provision for U.S. government investigations, gains or losses from derivative financial instruments, foreign exchange, asset impairment, disposals and other items that are excluded from the computation of AFFO.

(2) Refer to discussion of non-GAAP measures.